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WATER/FLC/JPT/MXK/SHI/jlj

AGENDA ITEM #5303

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4585

February 16, 2006

R E S O L U T I O N

**(RES. W-4585), CALIFORNIA WATER SERVICE COMPANY,
SALINAS DISTRICT (CAL WATER, SALINAS DISTRICT). ORDER
AUTHORIZING A SURCHARGE TO RECOVER WATER
TREATMENT EXPENSES BOOKED INTO A MEMORANDUM
ACCOUNT TO PRODUCE AN INCREASE IN ANNUAL REVENUE
FOR THE SALINAS DISTRICT OF \$1,054,838 OR 6.54% TO BE
AMORTIZED OVER A 36-MONTH PERIOD.**

SUMMARY

By Advice Letter (A.L.) No. 1734 filed on July 8, 2005 and Supplemental A.L. 1734-A, filed on December 2, 2005, Cal Water, Salinas District, seeks to add a surcharge of \$0.042 per 100 cubic feet (One Ccf is equal to 100 cubic feet) of water used for thirty-six months to its current Schedule No. SA-1, General Metered Service. The increase requested is to recover water treatment costs incurred from September 1, 2002 to December 31, 2004.

This resolution hereby grants Cal Water, the authority to recover \$1,054,838 in its Water Treatment Memorandum Account (WTMA).

BACKGROUND

Cal Water, a Class A utility, was authorized by Decision (D.) 02-08-054 to establish a memorandum account to record expenses associated with using ion-exchange water purification equipment in the removal of nitrate, uranium, and MTBE (Methyl-tert-butyl ether) contamination at four wells (15-01, 21-01, 28-01, and 108-01) located in its Salinas District in Monterey County. D.02-08-054 authorized Cal Water to seek Commission consideration of the amounts in the Salinas water treatment memorandum account in its next general rate proceeding. D.04-03-025 modified D.02-08-054 to permit Cal Water to seek recovery of expenses in the memorandum account through an annual advice letter filing, while preserving all other requirements of the original decision.

Cal Water filed Advice Letter 1734-A on December 2, 2005 seeking reimbursement of \$1,054,838 for expenses booked into the Salinas Water Treatment Memorandum Account (WTMA) between September 1, 2002 and December 31, 2004. Cal Water proposes a \$0.042 per Ccf surcharge for thirty-six months for all metered customers in order to recover the expenses in the memorandum account.

NOTICE AND PROTESTS

A copy of the advice letter was mailed to competing and adjacent utilities and other interested parties having requested such notification.

Notice of the proposed rate increase was published in The Californian, a Salinas-based newspaper of general circulation, on July 26, 2005, as evidenced by proof of publication provided to the Water Division (WD) by the utility. There were no protests concerning the proposed surcharge.

DISCUSSION

The Salinas District water treatment memorandum account consists of 5 categories of expenses: fixed expenses, variable expenses, depreciation charges, return on the cost of capital, and interest added as a result of the carrying balance in the memorandum account. According to Cal Water, none of the booked expenses was added into the rate base. Each category was separately verified by the WD for validity and accuracy.

Ordering Paragraph 3 of D.02-08-054 states, *"recovery of the amounts recorded in the Salinas memorandum account shall be allowed only to the extent recovery will not result in Cal Water exceeding its authorized rate of return in the calendar year in which the expenses were incurred."*

The surcharge requested herein would allow Salinas District to recover the WTMA balance for calendar years 2002 to 2004. For 2002, Salinas District reported a net operating revenue of \$1,825,571 or 6.57% rate of return on a recorded basis and is not earning over its authorized rate of return of 9.29%. For 2003, the reported net operating revenue was \$1,354,100 for a 4.57% rate of return, compared to a 9.29% authorized rate of return. For 2004, the recorded net operating revenue was \$1,276,365 for a 4.21% rate of return, compared to an 8.64% authorized rate of return. Accordingly, Cal Water did not exceed its authorized rate of return in the calendar year in which the expenses were incurred in the Salinas District. Therefore, the WD recommends that Cal Water be authorized to assess a surcharge of \$0.042 per customer per month for a period of thirty-six months for its Salinas District.

Because Cal Water is treating the incurred costs in the memorandum account entirely as an expense, Cal Water will not be allowed to apportion any amount in the memorandum account already claimed as expense into the rate base.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

FINDINGS

1. California Water Service Company was authorized by Decision 02-08-054 to establish a memorandum account to record expenses associated with using ion-exchange water purification equipment in the removal of nitrate, uranium, and MTBE (Methyl-tert-butyl ether) contamination at four wells (15-01, 21-01, 28-01, and 108-01) located in its Salinas District.
2. Decision 02-08-054 authorized California Water Service Company to seek Commission consideration of the amounts in the Salinas memorandum account in its next general rate proceeding.
3. Decision 02-08-054 stipulates that California Water Service Company may seek recovery of the recorded amounts in the memorandum account to the extent recovery will not result in California Water Service Company exceeding its authorize rate of return in the calendar year in which the expenses were incurred.
4. Interim decision 04-03-025 modified Decision 02-08-054 to permit recovery in the water treatment memorandum account through an annual advice letter filing.
5. California Water Service Company filed Advice Letters Nos. 1734 and 1734-A to seek a surcharge of \$0.042 per Ccf for thirty-six months to recover costs recorded in its water treatment memorandum account from September 1, 2002 to December 31, 2004, for a total amount of \$1,054,838 or 6.54% of adopted revenue to be amortized over thirty-six months.
6. California Water Service Company shall not apportion any amount in the memorandum account already claimed in this advice letter into the rate base.
7. The Commission finds, after investigation by the Water Division, that the request is justified, and the resulting rate is just and reasonable.
8. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311 (g) (3).

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Resolution W-4585
CAL WATER/ AL 1734-A/JPT/MXK/SHI/jlj

February 16, 2006

THEREFORE IT IS ORDERED THAT:

1. California Water Service Company, Salinas District, is authorized to levy a surcharge of \$0.042 per Ccf for thirty-six months to recover costs recorded in its water treatment memorandum account from September 1, 2002 to December 31, 2004, for a total amount of \$1,054,838 of adopted revenue to be amortized over thirty-six months.
2. California Water Service Company, Salinas District, is authorized to make effective revised Schedule SA-1, General Metered Service, attached to Advice Letter No. 1734-A, and to cancel the corresponding presently effective rate schedule. The effective date of the new schedule shall not be earlier than five days after the effective date of this resolution.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 16, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director